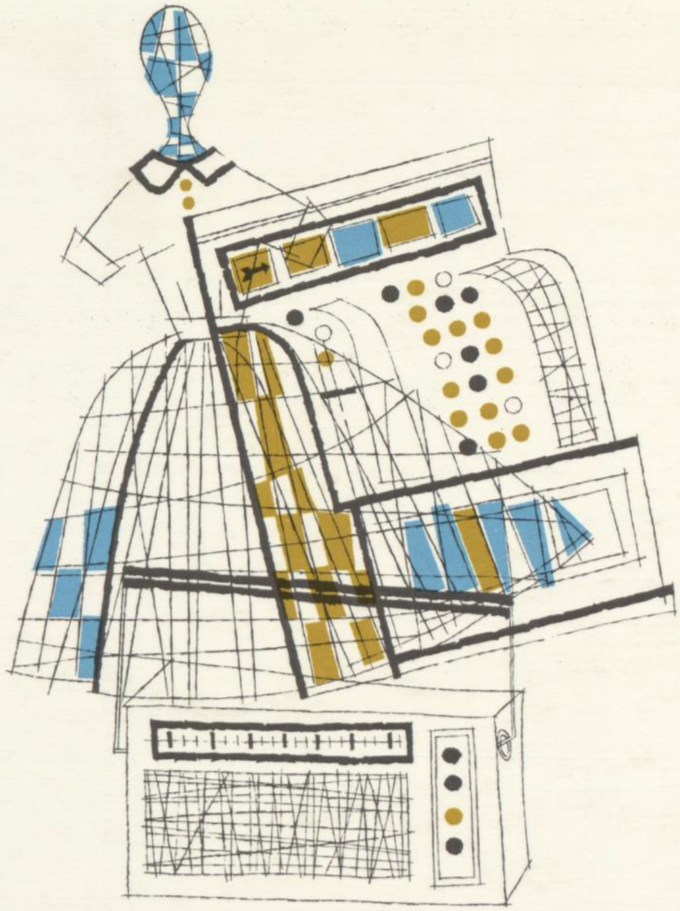


INTERSTATE DEPARTMENT STORES

Annual Report 1968

Financial Highlights

	1968	1967
Total Sales	$641,069,000	$558,082,000
Net Income before Taxes	21,981,000	17,797,000
Net Income after Taxes	10,981,000	10,197,000
Earnings Per Share*	2.27	2.16
Dividends Per Share—Cash*	.60	.48
Stock Splits	—	5-for-4
Working Capital	$ 55,290,000	$ 57,142,000
Current Ratio	1.8 to 1	1.9 to 1
Total Assets	$195,593,000	$165,610,000
Long Term Debt	42,146,000	34,732,000
Stockholders' Equity	76,031,000	66,706,000
Total Stores	125	113
Discount Stores	94	81
Conventional Stores	31	32

*Based on average number of shares for each year, adjusted to give effect to all stock dividends and stock splits.

To Our Shareholders:

We are pleased to report that 1968 was another record year. New records were set for both sales and earnings. Fifteen new stores were added, increasing the chain to 125 units. Important changes and additions were made in the top management organization, giving the Company the additional depth needed to manage its expanding operations.

Sales for the year that ended February 2, 1969 rose 15 per cent over the prior year. Sales were $641.1 million for the year, compared with $558.1 million the year before. Earnings increased to $11.0 million from $10.2 million, after giving effect to the tax surcharge of approximately $1 million. Based on an average number of shares outstanding, $2.27 and $2.16 were earned for the respective periods. An increase in the average number of shares outstanding from 4,715,291 to 4,827,103 resulted in a 3 per cent dilution of earnings, and the tax surcharge reduced net earnings per share by 21 cents. Despite these factors, Interstate was able to extend its record of higher earnings to its 10th consecutive year.

Another milestone was the extension of the Company's record of uninterrupted dividends to 29 consecutive years. Four dividends were paid during the year for a total of 60 cents a share. A total of $2,917,000 was distributed in dividends, compared with $2,280,000 the prior year.

Fixed assets were increased by $22.1 million to $55.8 million, reflecting the addition of 15 new stores to the Company's chain and improvements to existing stores. This was financed by an increase in mortgage debt from $4.9 million to $12.6 million, from funds obtained the prior year from an issue of convertible debentures, and from earnings. The use of these funds resulted in reducing working capital from $57.1 million to $55.3 million, and an increase in long-term debt from $34.7 million to $42.1 million. Stockholders equity continued to improve, rising to $76.0 million from $66.7 million in 1967. Total assets rose to $195.6 million from $165.6 million.

Interstate's store expansion program was the second most active in its history. The opening of 15 White Front, Topps, and Children's Supermart stores was exceeded only in 1962 when 19 units were added to the chain. The White Front group was expanded to 25 units, Topps to 61, and Children's Supermarts to eight. Shortly after the start of the new fiscal year, Interstate acquired Children's Bargain Town, U.S.A., a chain of eight discount toy stores, headquartered in Chicago. This increased its toy operations to 16 units. In March, 1969, a Topps store was added in Baltimore, Maryland, and a White Front unit in Newark, California.

Interstate's chain of conventional department stores also continued to make progress. Store improvements were carried out in many locations, and in April, 1969, our third suburban store in Flint, Michigan, was opened. Present plans call for the opening of more conventional department stores in the years ahead. The volume of sales and earnings of these stores has risen consistently in recent years, even though the number of stores has been reduced.

While national brands continued to account for a significant amount

of the merchandise sold through Interstate stores, specification merchandise grew in importance, particularly in certain lines such as men's, ladies' and boys' wear. Specification merchandise is likely to play an increasingly important role, since it provides the basis for controlling and improving quality and delivering better value.

A number of important steps were taken last year to add further strength to the top management organization in line with the Company's ambitious plans for the future. Robert Riesner was brought into the organization to fill the post of President vacated when Sol W. Cantor became Chairman, while continuing as chief executive officer. Julian Lavitt was named President of the White Front Division, and Harold J. Szold, a partner in Lehman Brothers, assumed the chairmanship of the executive committee of the Board.

Mr. Riesner has had extensive experience in the retailing field. Prior to joining Interstate last year, he had been associated with a number of major retailers in executive capacities, including the presidency of a chain of 62 discount department stores. Mr. Lavitt has been with Interstate since 1938, and has been a corporate vice president and member of the Board since 1964. Mr. Szold has served on Interstate's Board for many years.

Important changes and additions were made in the organization reporting directly to top management, including the setting up of new key posts within the merchandising and store operations functions. The new positions were filled with people promoted from within the Company.

We deeply regret the loss of Myron Schmittlinger who passed away April 20, 1969. Mr. Schmittlinger had been Vice President and Director of Stores of the Topps Division and a member of the Board of Directors. Mike, as he was known to his friends and associates, had given many years of outstanding service to the Company and will be greatly missed.

Three additions were made to the Board of Directors, including Robert Riesner, Robert Van Tuyl, and Edward C. Schenkel. Mr. Van Tuyl is Chairman of the Board of Directors of Shearson, Hammill & Co. Incorporated, and Mr. Schenkel is Treasurer of Interstate and has been associated with the Company since 1931.

Your Company enters 1969 confident about the future, despite the burdens of higher taxes, higher building costs, and higher wages. Plans call for the addition of approximately 22 new stores in 1969, and the continued development of systems and controls designed to improve efficiency. We are planning a common stock offering this spring to help finance our growth plans.

The Company's exceptional record of growth was made possible by the dedication, loyalty, and enthusiasm of our people at all levels of organization. We are greatly appreciative of their efforts, and are confident that they will help to make the new fiscal year another year of record achievement.

Sincerely,

SW Cantor

Sol W. Cantor
Chairman

California

- *Anaheim*
- *Canoga Park*
- *Concord*
- *Costa Mesa*
- *Covina*
- *Downey*
- *East Los Angeles*
- *Fresno*
- *La Mesa*
- *Newark***
- *Oakland*
- *Ontario*
- *Pacoima*
- *Sacramento*
- *San Bernardino*
- *San Diego*
- *San Francisco (Seals Stadium)*
- *San Jose*
- *South Sacramento*
- *South San Francisco*
- *Sunnyvale*
- *Torrance*
- *West Los Angeles*

Washington

- *Burien*
- *Seattle*
- *Tacoma*

***Opened Spring, 1969*

White Front

In 1929, the first White Front store was a small grocery in Los Angeles. Thirty years later there were two White Front stores, both very successful discount stores for their time, specializing in selling brand name major appliances at discount prices, operating at a total annual volume of $20 million.

At that point—1959—the two stores were purchased by Interstate, and the White Front expansion began. Today there are 26 White Front stores on the West Coast, with annual volume at the rate of more than $300 million. The two original discount stores have since been replaced. They were too small with only 30,000 square feet of selling area to support the full-line department store operation White Front had become. The new stores occupy an average of 140,000 square feet of space.

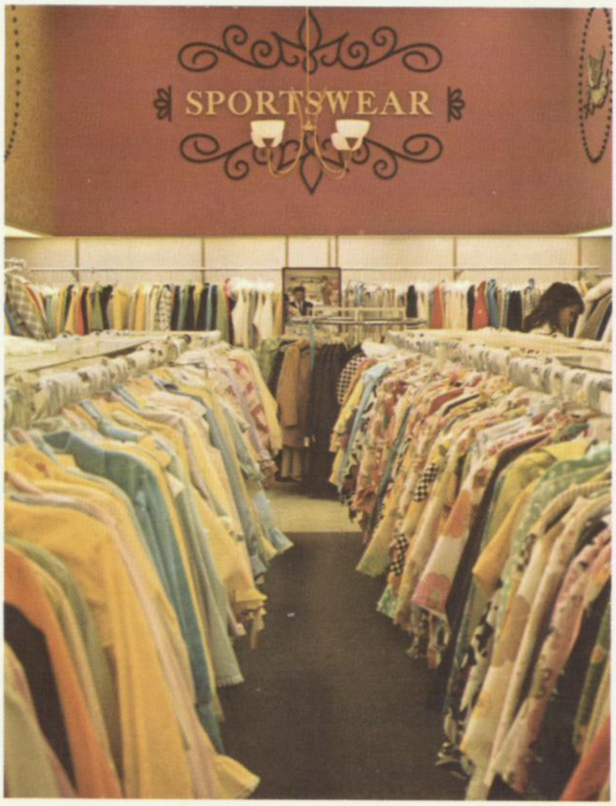
The growth of White Front was predicated on a reputation in major appliances—a reputation that was immeasurably strengthened as White Front grew to become the leading retailer of major appliances and television sets on the West Coast.

As the major appliance business grew, White Front also developed important volume and market dominance in allied lines such as radios, record players, household electrics, housewares, hardware, and automotives.

More recently, White Front has been giving added emphasis to soft lines, and this has now grown to a significant proportion of the total.

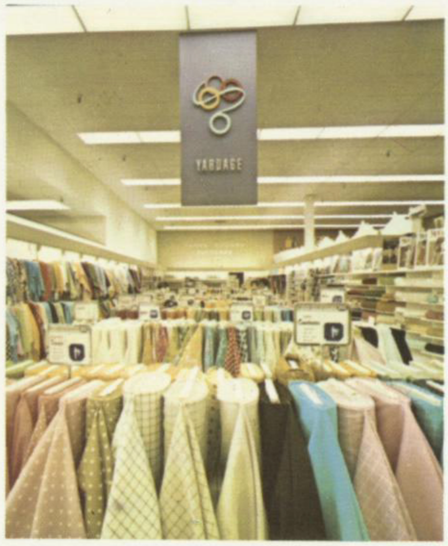
Greater attention is also being given to specification merchandise, particularly in hard lines, to supplement brand names.

Last year White Front opened two new stores—one of which was the first major store to be opened within the city limits of San Francisco in more than 20 years. It is the biggest store in the White Front chain. Since the start of the new year, a unit was opened in Newark, California. New store openings for 1969 and beyond are projected at the rate of four to five a year.


SPORTSWEAR


CARPETING
ROOM SIZE RUGS
AREA RUGS


MAJOR APPLIANCES


YARDAGE

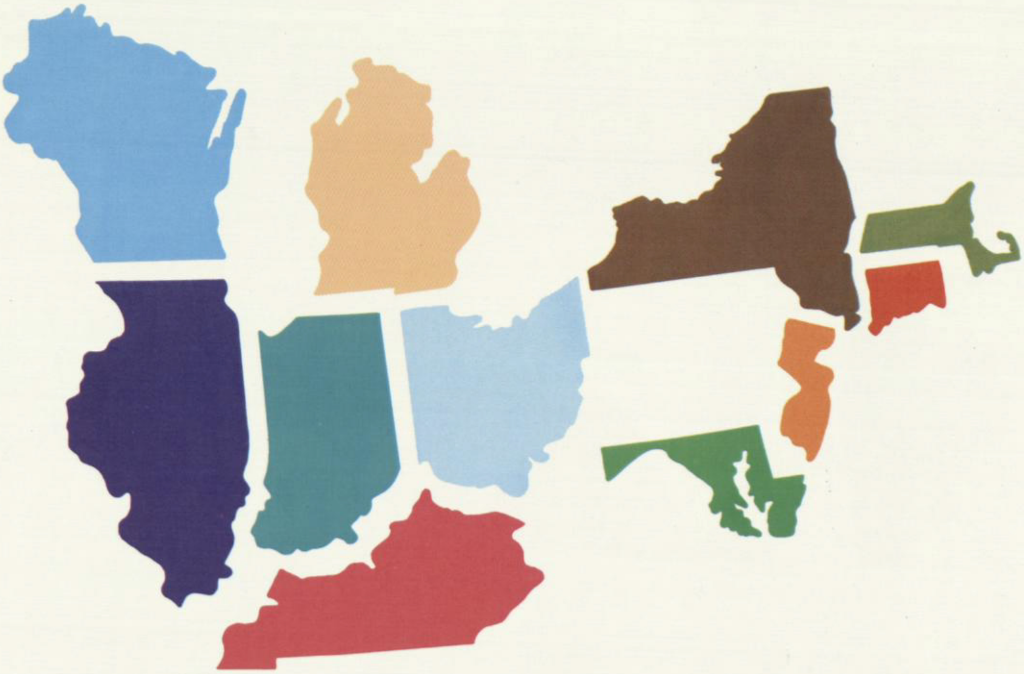

WHITE FRONT


topps


Linens
Discounts in Bloom
TOWEL
ENSEMBLE


SMALL
Appliances


Womens



Topps

When Interstate acquired Topps in 1960, it was a chain of eight stores in New England and the Midwest occupying an average of 50,000 to 60,000 square feet of space, with total annual sales of about $15 million. Merchandise emphasis was on soft goods, plus housewares and hardware.

Today, there are 62 Topps stores in eleven states throughout the Northeast and Midwest, with sales at an annual rate in excess of $250 million. New store openings have been at the rate of nine to ten a year. Much of the growth has been in the suburbs of large cities such as Chicago, Detroit and Baltimore, where stores have been clustered in groups to take advantage of a single coordinated advertising and merchandising program.

Topps' merchandise lines have grown to meet changing consumer demands. Sales are now approximately evenly divided between soft goods and hard goods, although Topps is especially noted for its fashion presentations. In line with future expansion plans, major appliance departments similar to those in the White Front stores are now being tested. New Topps stores today average 90,000 square feet and reflect a blending of attractive interior and exterior design with efficiency.

Topps is headquartered in New York City. Here a centralized organization manages the buying, merchandising, advertising, and accounting functions for all 62 Topps stores. The field organization consists primarily of store managers and regional group managers who, in turn, report to a divisional director for store operations.

Topps last year opened ten stores and early in the current year it added its 62nd store at Glen Burnie, a suburb of Baltimore. Growth for the balance of the year is projected at an accelerated rate—up to 12 openings. Many of these new stores will be in communities where Topps is already well established.

Connecticut
- *Berlin*
- *Fairfield*
- *Hartford—Windsor*
- *East Hartford*
- *Middletown*
- *West Haven*

Illinois
- *Chicago—Addison*
- *Chicago—Arlington Heights*
- *Chicago—La Grange*
- *Chicago—Morton Grove*
- *Chicago Heights*
- *Downer's Grove*
- *Elgin*
- *Joliet*
- *Rockford*
- *Waukegan*

Indiana
- *Gary*
- *Greenwood*
- *Highland*
- *Indianapolis—38th Street*
- *Indianapolis—Speedway*
- *Lafayette*
- *Terre Haute*

Kentucky
- *Louisville—Hikes Point*
- *Louisville—Outer Loop*

Maryland
- *Baltimore—Dundalk*
- *Baltimore—Glen Burnie***
- *Baltimore—Perring Parkway*
- *Baltimore—Pike Park Mall*
- *Baltimore—Timonium*

Massachusetts
- *Fall River (Kerr Mill Bargain Center)*
- *Springfield*
- *West Springfield*

Michigan
- *Ann Arbor*
- *Detroit—Oak Park*
- *Detroit—Redford*
- *Detroit—Southgate*
- *Detroit—Warren*
- *Detroit—Wayne*
- *Kalamazoo*
- *Lansing*

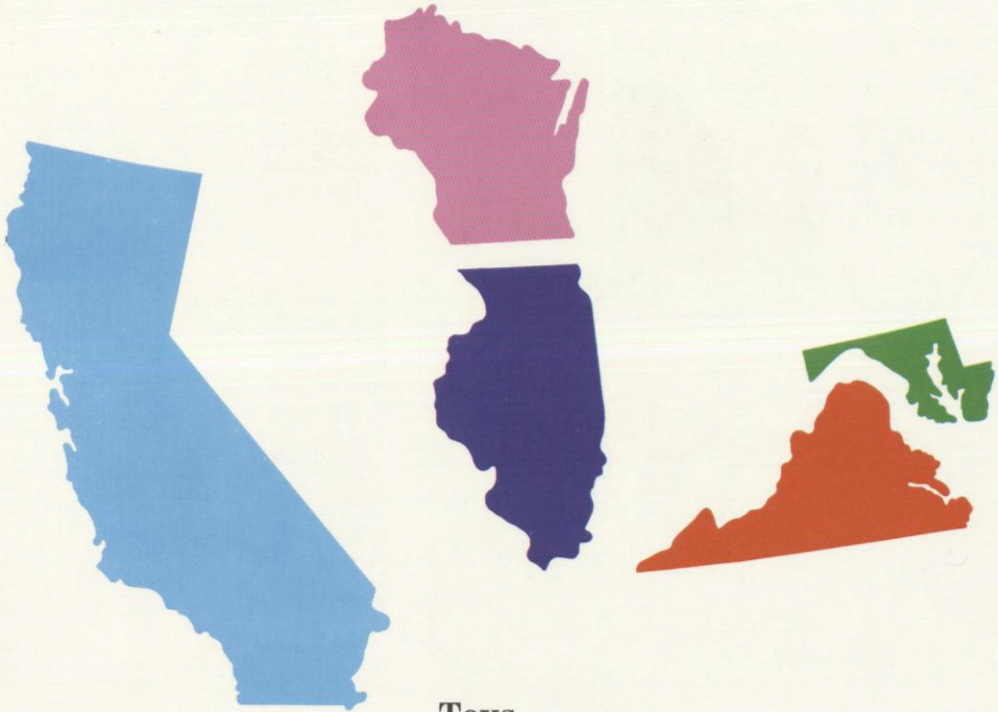
New Jersey
- *Totowa*

New York
- *Albany*
- *Buffalo—Central Park*
- *Buffalo—Cheektowaga*
- *Buffalo—Tonawanda*
- *Buffalo—Orchard Park*
- *Rochester*
- *Rochester—Greece*
- *Rochester—Henrietta Plaza*

Ohio
- *Canton*
- *Canton—Stark*
- *Cleveland—Maple Heights*
- *Cleveland—Mayfield Heights*
- *Cleveland—Parma Heights*
- *Cleveland—N. Olmsted*
- *Columbus—E. Livingston*
- *Columbus—Morse Road*
- *Columbus—Sullivant*
- *Toledo*

Wisconsin
- *Kenosha*
- *Madison*

***Opened Spring, 1969*



California
- *Torrance*
- *Van Nuys*

Illinois
- *Chicago—Calumet City***
- *Chicago—Lincoln Avenue***
- *Chicago—North Milwaukee Ave.***
- *Chicago—East 92nd Street***
- *Chicago—South Cicero Avenue***
- *Chicago—Melrose Park***
- *Chicago—Niles***

Maryland
- *Adelphi*
- *Lanham*
- *Marlow Heights*
- *Rockville*

Virginia
- *Bailey's Crossroads*
- *Fairfax*

Wisconsin
- *Milwaukee***

***Acquired March, 1969*

Toys

In a very short period Interstate has become a major factor in the toy retail field. In November, 1966, the Company acquired the four-store Children's Supermart chain located in the Washington, D.C. area, and established toys as a fourth division of the Company alongside the Topps, White Front, and conventional store divisions. Subsequently, two additional stores were opened in the Washington suburbs, and two in the suburbs of Los Angeles.

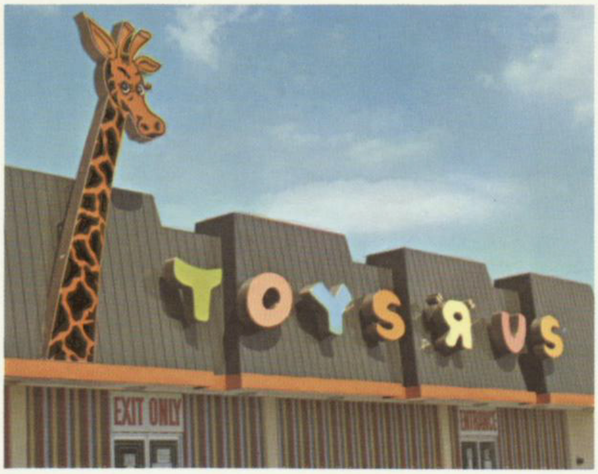
Interstate's position in the field was strengthened at the end of March, 1969, when it acquired the Children's Bargain Town, U.S.A., chain. The chain has seven stores in the suburbs of Chicago and one in Milwaukee. Two additional stores are scheduled for opening later in the year in Livonia and Southgate, Michigan, suburbs of Detroit.

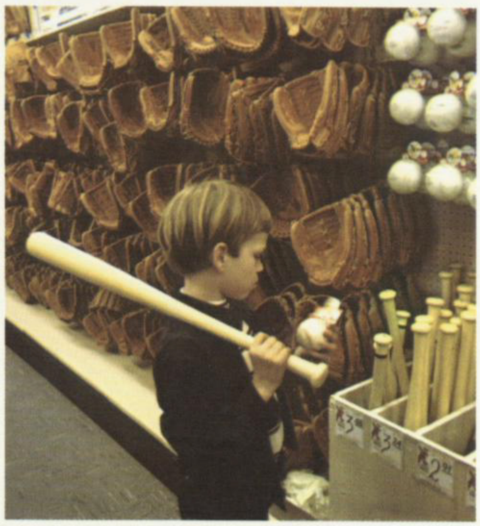
Interstate's entry into discount toy retailing in free-standing stores reflects the change in the nature of the toy business since World War II, and its growth particularly during the past ten years.

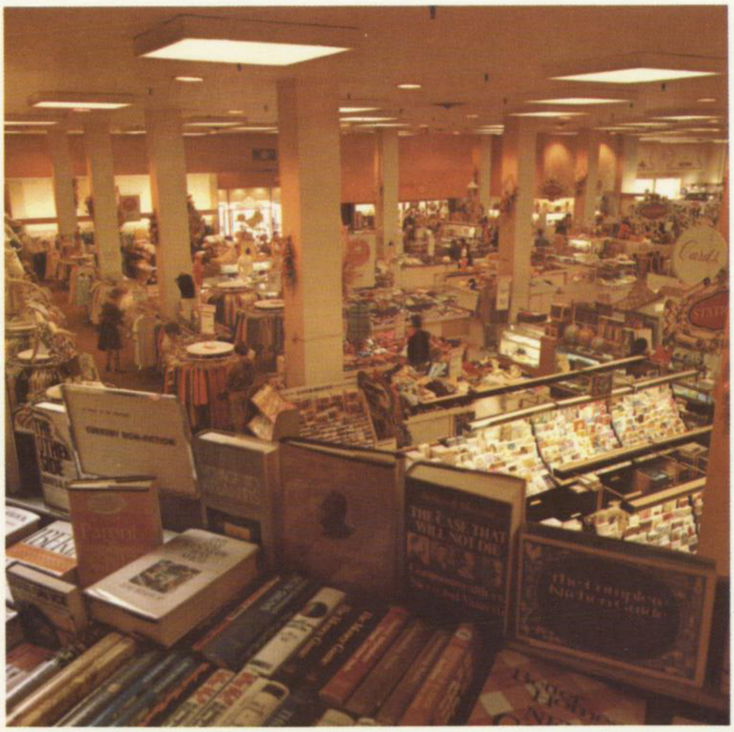
Traditionally, the year-end holiday season provided the only heavy volume of toy sales. But, the aspiring parents of the post-war years, encouraged by educators and sociologists, recognized that play is the way a child grows and develops both intellectually and physically. They created a demand for toys that was more than mere diversion.

By 1958, the toy business had grown to an annual volume of $500 million a year, and ten years later it exceeded $2.5 billion a year.

The growth opportunities that Interstate sees ahead in this area are comparable to those it experienced in building its White Front and Topps divisions. With a base of 16 discount toy stores to build on, Interstate plans an accelerated schedule of store openings for Children's Supermarts in the current year and parallel growth for Children's Supermarts and Children's Bargain Town, U.S.A., in the years immediately ahead.

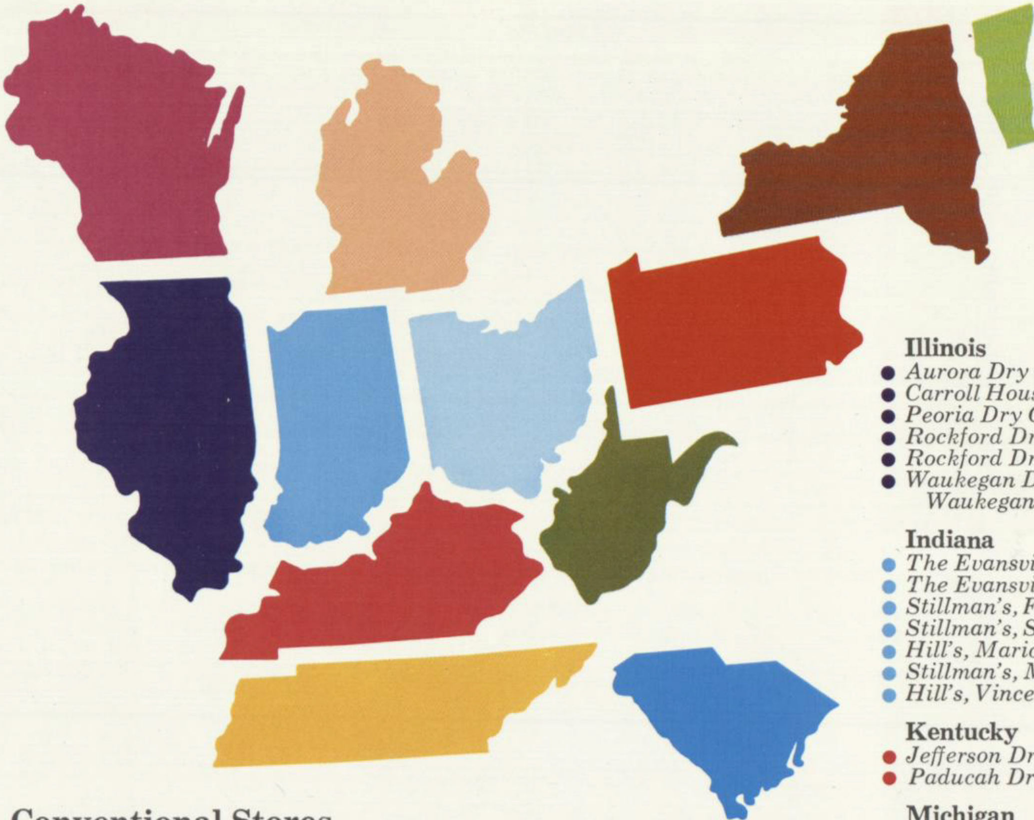

TOYS Я US
EXIT ONLY




Cards
THE CASE THAT WILL NOT DIE


CRUISE WEAR


HANGOUT



Conventional Stores

In the thirty years following its founding in 1928, Interstate's chain of conventional department stores grew from 22 to 52, and in annual sales from $21.5 million to $65.6 million. But as the migration to the suburbs accelerated and downtown stores declined in importance, the rate of earnings growth slowed and many of the stores were reduced to purely marginal operations.

At that point Interstate decided to restructure its conventional store operations. Marginal stores were closed. Suburban branch stores were opened in a number of communities. Substantial investments were made in modernizing and remodeling key stores that were dominant in their communities or could become dominant stores based on fashion and service. In this period of 10 years, better than $10 million was invested in this program.

Today, the chain is entering a new growth phase, drawing on all of Interstate's resources in merchandising, advertising and promotion, financing and personnel development.

Popular-priced national branded merchandise—with emphasis on up-to-the-minute fashions most in demand—is vigorously promoted in the atmosphere of high-style decor that many shoppers prefer to self-service.

There are now 32 stores—24 of them in downtown locations—in the chain. Both sales and earnings are at their highest point in history. One new suburban store was opened in Flint, Michigan, in April, 1969, and additional stores are contemplated at the rate of one or two a year for the next several years. A total of 35 or 36 profitable conventional stores by 1971 has been set as a reasonable goal.

Illinois
- *Aurora Dry Goods, Aurora*
- *Carroll House, Belleville*
- *Peoria Dry Goods, Peoria*
- *Rockford Dry Goods, Loves Park*
- *Rockford Dry Goods, Rockford*
- *Waukegan Dry Goods Co., Waukegan*

Indiana
- *The Evansville Store, Evansville*
- *The Evansville Store, Lawndale*
- *Stillman's, Fort Wayne*
- *Stillman's, South Gate*
- *Hill's, Marion*
- *Stillman's, Muncie*
- *Hill's, Vincennes*

Kentucky
- *Jefferson Dry Goods, Louisville*
- *Paducah Dry Goods Co., Paducah*

Michigan
- *George W. Toeller Co., Battle Creek*
- *The Fair, Court Mall***
- *The Fair, Flint*
- *The Fair, North Flint*
- *Stillman's, Jackson*

New York
- *Boston Store, Latham*
- *Boston Store, Massena*
- *Stanley's, Troy*
- *Boston Store, Utica*

Ohio
- *The Boston Store, Springfield*

Pennsylvania
- *Carroll House, Williamsport*

South Carolina
- *Bailes, Anderson*

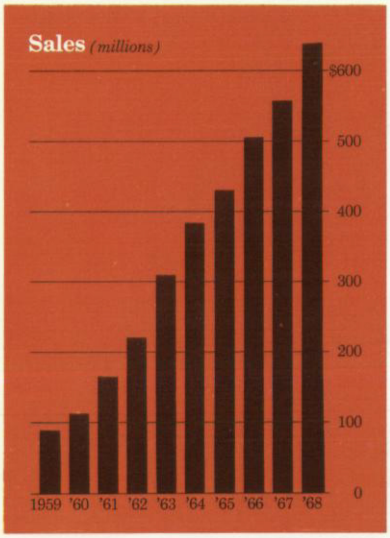
Tennessee
- *The Knox, Knoxville*

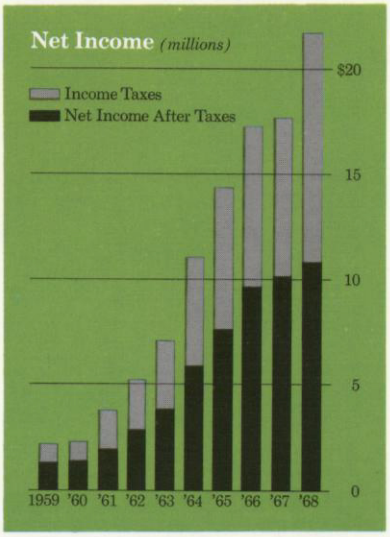
Vermont
- *Economy Department Store, Rutland*

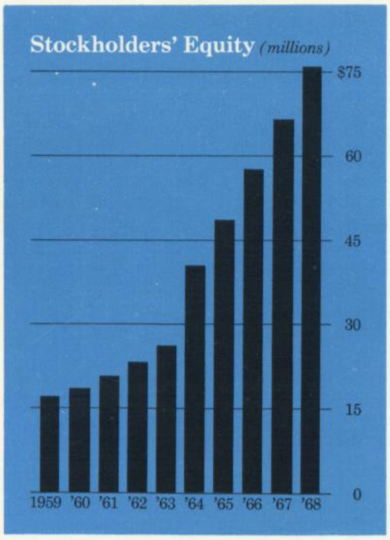
West Virginia
- *The Huntington Store, Huntington*

Wisconsin
- *Fond du Lac Department Store, Fond du Lac*
- *Hill's Department Store, Sheboygan*

***Opened Spring, 1969*







Ten Year Financial Review

Operations	1968	1967	1966
Total Sales	$641,069,000	$558,082,000	$505,017,000
Discount Store Sales	569,527,000	493,599,000	444,223,000
Conventional Store Sales	71,542,000	64,483,000	60,794,000
Net Income before Taxes	21,981,000	17,797,000	17,340,000
Net Income after Taxes	10,981,000	10,197,000	9,790,000
Earnings Per Share*	2.27	2.16	2.13
Financial			
Working Capital	$ 55,290,000	$ 57,142,000	$ 37,641,000
Current Ratio	1.8 to 1	1.9 to 1	1.6 to 1
Total Assets	195,593,000	165,610,000	133,015,000
Fixed Assets	55,847,000	37,228,000	27,380,000
Long Term Debt	42,146,000	34,732,000	13,559,000
Stockholders' Equity	76,031,000	66,706,000	57,843,000
Dividends Per Share—Cash*	.60	.48	.46
—Stock Dividends	—	—	4%
—Stock Splits	—	5-for-4	—
Stores			
Discount	94	81	70
Conventional	31	32	31
Total	125	113	101

*Based on average number of shares for each year, adjusted to give effect to all stock dividends and stock

1965	1964	1963	1962	1961	1960	1959
$433,631,000	$384,867,000	$311,153,000	$222,807,000	$165,219,000	$114,311,000	$ 90,315,000
377,426,000	330,691,000	256,375,000	167,481,000	108,462,000	55,255,000	26,620,000
56,205,000	54,176,000	54,778,000	55,326,000	56,757,000	59,056,000	63,695,000
14,433,000	11,122,000	7,122,000	5,249,000	3,829,000	2,385,000	2,309,000
7,933,000	5,922,000	3,907,000	2,909,000	2,079,000	1,490,000	1,394,000
1.79	1.41	1.05	.79	.57	.42	.41
$ 38,769,000	$ 37,618,000	$ 28,178,000	$ 14,786,000	$ 14,904,000	$ 10,661,000	$ 12,798,000
1.9 to 1	2.1 to 1	2.1 to 1	1.5 to 1	1.9 to 1	1.7 to 1	2.6 to 1
108,366,000	91,287,000	68,610,000	59,670,000	45,268,000	37,554,000	28,811,000
19,158,000	12,925,000	9,557,000	9,780,000	8,340,000	7,698,000	6,875,000
13,792,000	15,580,000	15,619,000	5,962,000	6,960,000	3,336,000	3,749,000
48,648,000	40,639,000	26,363,000	23,218,000	20,620,000	18,917,000	17,051,000
.39	.30	.22	.17	.14	.12	.12
4%	4%	4%	4%	2%	5%	3%
—	2-for-1	—	—	3-for-1	—	—
59	58	51	44	25	20	5
31	32	34	36	37	41	46
90	90	85	80	62	61	51

splits.

Consolidated Balance Sheet

Assets	1968 (Feb. 2, 1969)	1967 (Jan. 31, 1968)
Current Assets:		
Cash (including Certificates of Deposit)	$ 4,105,000	$ 16,126,000
Short-term investments—at cost		1,066,000
Accounts receivable:		
Customers (net of reserves of $605,000 and $588,000, respectively)	11,227,000	9,941,000
Other (Note E)	9,640,000	8,187,000
Merchandise inventories (Note A)	100,747,000	80,874,000
Prepaid expenses	2,135,000	1,991,000
Total Current Assets	127,854,000	118,185,000
Other Assets (Note E)	2,652,000	1,888,000
Fixed Assets—at cost (net of reserves of $12,907,000 and $10,173,000, respectively) (Note B)	55,847,000	37,228,000
Deferred Charges	1,652,000	1,193,000
Intangibles Applicable to Subsidiaries Acquired (Note C)	7,588,000	7,116,000
	$195,593,000	$165,610,000

See accompanying notes

Liabilities	1968 (Feb. 2, 1969)	1967 (Jan. 31, 1968)
Current Liabilities:		
Current installments of long-term debt (Notes B and C)	$ 901,000	$ 665,000
Accounts payable — trade	48,599,000	44,241,000
Accrued expenses and other liabilities	12,388,000	9,029,000
Taxes withheld and accrued, other than Federal income taxes	4,187,000	3,091,000
Accrued Federal income taxes	6,489,000	4,017,000
Total Current Liabilities	72,564,000	61,043,000
Long-term Debt (Notes B and C) ..	42,146,000	34,732,000
Deferred Items (including Federal income taxes of $2,893,000 and $2,148,000, respectively)	4,852,000	3,129,000
Stockholders' Equity (Notes C, D and H)	76,031,000	66,706,000
Lease Commitments and Other Comments (Notes F, G and H)		
	$195,593,000	$165,610,000

o financial statements.

Consolidated Statement of Earnings

	1968 (Year Ended Feb. 2, 1969)	1967 (Year Ended Jan. 31, 1968)
Net Sales:		
Owned departments	$483,988,000	$407,455,000
Leased departments	157,081,000	150,627,000
	641,069,000	558,082,000
Cost of Sales (including certain buying, occupancy and distribution expenses)	514,172,000	456,623,000
	126,897,000	101,459,000
Selling, General and Administrative Expenses	106,944,000	86,042,000
	19,953,000	15,417,000
Other Income–Net	3,632,000	3,499,000
	23,585,000	18,916,000
Interest Expense	1,604,000	1,119,000
Earnings before Federal Income Taxes	21,981,000	17,797,000
Provision for Federal Income Taxes	11,000,000	7,600,000
Net Earnings	$ 10,981,000	$ 10,197,000
Per share of Common Stock (based on average number of shares outstanding during each year)	$2.27	$2.16
Pro forma per share, reflecting conversion and contingent share issuances (Note I)	$2.11	$2.07

See accompanying notes to financial statements.

Consolidated Statement of Source and Application of Funds

	1968 (Year Ended Feb. 2, 1969)
Source of Funds	
Net earnings	$10,981,000
Depreciation and amortization	3,507,000
Increase in deferred credits (including increase in deferred Federal income taxes of $745,000)	1,723,000
Increase in long-term debt—net (before deducting $139,000, net of related expenses, of Debentures converted into Common Stock)	7,553,000
Exercise of employee stock options	1,122,000
Decrease in working capital	1,852,000
	$26,738,000
Application of Funds	
Fixed assets acquired under modernization and expansion program—net	$22,126,000
Cash dividends	2,917,000
Increase in other assets, deferred charges and intangibles	1,695,000
	$26,738,000

Consolidated Statement of Stockholders' Equity

	1968 (Year Ended Feb. 2, 1969)	1967 (Year Ended Jan. 31, 1968)
Retained Earnings (at beginning of year)	$29,058,000	$21,141,000
Net Earnings	10,981,000	10,197,000
	40,039,000	31,338,000
Cash Dividends Declared	2,917,000	2,280,000
Retained Earnings (at end of year) (Note C)	37,122,000	29,058,000
Capital Surplus (Notes C and D)	32,803,000	31,659,000
Common Stock (stated at par value of $1 per share, plus $1,271,000 retained as Capital by resolution of the Board of Directors) (Notes C, D and H)		

Shares	1968	1967
Authorized	6,500,000	6,500,000
Issued	4,908,000	3,833,000
To be issued		958,000
	4,908,000	4,791,000

	1968	1967
Common Stock	6,179,000	6,062,000
	76,104,000	66,779,000
Less: Treasury Stock—at cost—17,000 shares	73,000	73,000
Stockholders' Equity	$76,031,000	$66,706,000

See accompanying notes to financial statements.

Notes to Financial Statements

The financial statements as at and for the year ended January 31, 1968, as reclassified, are shown for comparative purposes only. Reference should be made to the previously issued annual report for the Accountants' Report and notes pertaining to those financial statements.

Note A—Merchandise inventories are stated at the lower of cost or market, determined principally by the retail method.

Note B—Fixed assets comprise the following:

Land and buildings	$18,581,000
Furniture and equipment	33,729,000
Leaseholds and leasehold improvements	16,444,000
	68,754,000
Less: Reserves for depreciation and amortization	12,907,000
	$55,847,000

For financial accounting purposes, depreciation and amortization ($3,507,000 – 1968; $2,576,000 – 1967) are computed by the straight-line method for each class of depreciable and amortizable assets. Estimated useful lives, by class, are as follows:

Buildings (20 to 40 years); furniture and equipment (4 to 12½ years); and leaseholds and leasehold improvements (12½ to 25 years).

Fixed assets having a depreciated cost of $14,145,000 are pledged as collateral for obligations of $12,556,000 included in long-term debt—see Note C.

Note C—Long-term debt consists of the following:

5⅜% Notes payable—insurance companies	$8,500,000
4⅝% Convertible Subordinated Debentures due August 1, 1981	897,000
4% Convertible Subordinated Debentures due August 1, 1992	20,000,000
Mortgages payable (Note B)	12,556,000
Other	1,094,000
	43,047,000
Less: Current installments	901,000
	$42,146,000

The 5⅜% Notes are payable $500,000 a year through 1976, $600,000 a year from 1977 through 1982 and $900,000 in 1983.

The indentures applicable to the 4⅝% and 4% Debentures require annual redemptions of $275,000 and $900,000, respectively, aggregating as follows: $275,000 through 1977, $1,175,000 from 1978 to 1980, and $900,000 from 1981 to 1991. Each Debenture's annual redemption requirement is subject to reduction, at the Company's option, for prior conversions which aggregate $4,963,000 (applicable solely to the 4⅝% Debentures) as at February 2, 1969. It is the Company's present intention to exercise this option. The 4⅝% and 4% Debentures may be converted into Common Stock at conversion prices of $9.40 and $45.00 a share, respectively. During the year, $144,000 of 4⅝% Debentures were converted into 15,000 shares of Common Stock, resulting in increases in Common Stock of $15,000 and in Capital Surplus of $124,000 (net of related unamortized debt discount and expense). Based upon the foregoing conversion prices, the outstanding Debentures at February 2, 1969 may be converted into 540,000 shares of Common Stock.

Formulae contained in certain of the loan agreements limit the aggregate amount of cash dividends to approximately $27,200,000 as at February 2, 1969.

The mortgages bear interest at annual rates of 4½% to 7⅛% and are payable in varying installments with final payments becoming due in 1971-1999.

In connection with a prior year purchase of a group of corporations, the Company may be required to pay additional amounts not to exceed $750,000 provided specified net earnings are achieved during the five years ending January 31, 1972.

As at February 2, 1969, certain of the Company's subsidiaries (engaged in real estate operations) had received commitments for mortgage financing in the aggregate amount of $2,300,000.

See Note E as to long-term debt (not included herein) of 50% owned corporations and joint ventures.

Note D—Under the Company's stock option plans, options for 129,000 shares may be granted to 1973 and for 104,000 shares to 1978, at not less than fair market value at date of grant; depending on the plan, options are either exercisable 25% a year (on a cumulative basis) commencing one year from date of grant or exercisable in full after four years and nine months from date of grant. Options expire five years from date of grant.

During the year, options (1) were granted for 73,000 shares, (2) lapsed for 3,000 shares and (3) were exercised for 102,000 shares resulting in credits to Common Stock ($102,000) and Capital Surplus ($1,020,000). At February 2, 1969, options were outstanding for the purchase of 134,000 shares at prices ranging from $10.79 to $44.50 a share.

Note E—Subsidiaries of the Company have 50% interests in a number of corporations and joint ventures, whose functions are to acquire properties, construct store buildings thereon and lease all or substantial portions thereof to other subsidiaries. The investments in and advances to these companies aggregated $2,224,000 as at February 2, 1969. Of this amount, $1,230,000 is included in Accounts Receivable – Other and $994,000 is included in Other Assets. As at April 17, 1969, the Company had guaranteed bank indebtedness of one of the corporations amounting to $1,750,000; it is anticipated that this indebtedness will be refinanced on a long-term basis not subject to such guarantee.

As at their respective fiscal year-end dates (December 31, 1968 or January 31, 1969) net fixed assets and long-term debt of 50% owned corporations and joint ventures, not included in the consolidated balance sheet, aggregated $49,220,000 and $39,375,000, respectively. Of the latter amount, $19,785,000 represents obligations of 50% owned corporations and $19,590,000 represents mortgage indebtedness of the joint ventures (as to $2,175,000 of

which, subsidiaries of the Company are liable); the mortgages bear interest at annual rates of 5.3% to 7⅜% and are payable in varying installments with final payments becoming due in 1986-1995. In addition, as at their respective year-end dates, the joint ventures had received commitments for additional mortgage financing aggregating $4,060,000 as to none of which subsidiaries of the Company will be liable. Data included above with respect to joint ventures are based upon unaudited financial statements. Combined financial statements of certain of the aforementioned 50% owned companies will be included in the Company's Annual Report on Form 10-K to be filed with the Securities and Exchange Commission.

Note F—Minimum annual rentals of real and personal property leased to the Company or to its subsidiaries amount to approximately $14,100,000 (including $4,530,000 applicable to the 50% owned corporations and joint ventures referred to in Note E) plus, in certain instances, additional rentals based upon sales and charges for real estate taxes, insurance, etc. Of the aggregate annual rentals, $4,450,000 expires prior to 1983, $4,500,000 expires between 1983 and 1988, and $5,150,000 expires after 1988.

Note G—At February 2, 1969, the Company is contingently liable for $1,199,000 under an accommodation note (due December 1, 1988) that it issued in connection with a sale-leaseback during a prior year. This contingent liability is subject to reduction to the extent that the lessor makes required payments against a note issued by it.

Note H—In March 1969, the Company purchased a group of corporations in the retail toy business.

Commencing February 1, 1968, the Company adopted an annual fiscal period of 52 or 53 weeks ending on the Sunday closest to January 31. This change had no material effect on net earnings.

Subject to stockholder approval, the Company proposes to increase its authorized number of shares of Common Stock to 10,000,000 shares.

Subsequent to February 2, 1969, the Company borrowed $24,000,000 on a short-term basis.

The Company is contemplating a Common Stock offering to the public about the middle of 1969.

Note I—Supplementary per-share data (based on the average number of shares of Common Stock outstanding during the year) give retroactive pro forma effect to the conversion of all outstanding debentures (with related interest, net of taxes, eliminated) and to the exercise of all outstanding stock options, as if the related issuances of Common Stock had taken place at the beginning of the year, or during the year with respect to options issued in the current period.

For purposes of the pro forma computation, proceeds that would have been realized from exercise of options have been treated as though applied in payment of certain outstanding long-term debt, and the related interest, net of taxes, eliminated.

Accountants' Report

To the Board of Directors
Interstate Department Stores, Inc.
New York, N.Y.

We have examined the consolidated balance sheet of Interstate Department Stores, Inc., and subsidiary companies as at February 2, 1969, and the related consolidated statements of earnings and stockholders' equity and the supplemental consolidated statement of source and application of funds for the fiscal year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and consolidated statements of earnings and stockholders' equity present fairly the consolidated financial position of Interstate Department Stores, Inc., and subsidiary companies at February 2, 1969, and the consolidated results of their operations for the fiscal year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Also, in our opinion, the accompanying consolidated statement of source and application of funds presents fairly the supplemental information shown therein.

New York, N.Y.
April 17, 1969

S. D. Leidesdorf & Co.
Certified Public Accountants

Directors

Sam J. Abend
Sol W. Cantor
Julian Lavitt
Emanuel P. Lewis
M. Lester Mendell
Albert Parker
Paul D. Preger
Robert Riesner
Edward C. Schenkel
Myron Schmittlinger *
Harold J. Szold
Robert C. Van Tuyl

Officers

Sol W. Cantor, *Chairman*
Robert Riesner, *President*
Julian Lavitt, *Vice President and President White Front Division*
Myron Schmittlinger,* *Vice-President and Director of Stores, Topps Division*
Sam J. Abend, *Vice President and Group Manager, Department Store Division*
Harry Epstein, *Vice President White Front Division*
Mildred Rosen, *Vice President*
Albert Parker, *Secretary*
Edward C. Schenkel, *Treasurer*
Daniel L. Reit, *Assistant Secretary*

**Deceased April 20, 1969*

Transfer Agent

Bankers Trust Company, N.Y.

Registrar

Manufacturers Hanover Trust Co., N.Y.

General Counsel

Parker, Chapin and Flattau, N.Y.

Auditors

S. D. Leidesdorf & Co., N.Y.

Executive Offices

111 Eighth Avenue, New York, N.Y. 10011

Annual Meeting
Fourth Wednesday in May
Shares Listed
New York Stock Exchange—ISD